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8-1-1996

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Recommended Citation

Madsen, Larry; Hoyt, Curtis; May, Alan; Matz, Ralph; Davis, Jack; and Pfueger, Burton, "Livestock Contract Feeding Arrangements" (1996). *Extension Extra*. Paper 155.

http://openprairie.sdstate.edu/extension_extra/155

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Livestock Contract Feeding Arrangements

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The "share or contract feeding" arrangements have been a favorable alternative for both livestock owners and feeders for a number of years. Some feeders prefer to risk only their labor and possibly their feed, others are willing to risk the entire cost of feeding livestock but lack the necessary capital or credit. Some livestock owners find it more convenient to contract with a second party to finish their livestock for market.

As in all contracts livestock feeding contracts should be fair and understood by both parties. The contract should be designed to meet specific conditions important to the livestock owner and to the feeder.

In a contract feeding agreement, the livestock owner usually agrees to supply the livestock to be fed. The feeder agrees to furnish the feed, equipment and labor for wintering, and/or pasturing or fattening the animals.

The purpose of the contract is to make provisions for:

- Handling and feeding.
- Division of profit or loss.
- Marketing the livestock.

A thorough understanding of the contract should be reached before the plan is completed and signed. The agreement should always be in writing and each party should have a signed copy.

Contract Arrangement

Those entering into a contract should understand the feed requirements for the livestock to be fed. Each should have knowledge of the feed costs, the risk associated with feeding livestock under a contract, and other expenses. Each

party also should have confidence in the ability and integrity of the other party.

Factors to consider when forming a contract:

- Shrink and weighing conditions.
- Transportation to and from the feedlot.
- Marketing costs.
- Overhead expense in the use of lots and equipment.
- Feed costs of gain per hundred pounds.
- Division of the profit or loss.
- Veterinary costs.

When livestock are mortgaged, the consent of the mortgagee should be included in the written contract. If the livestock owner employs a third person, this also should be stated in writing.

Generally, the cattle are fed on the feeder's premises, and the manure belongs to the feeder. The contract should state which party or parties gets the hides, pelts, or wool. In the case of animal deaths, are the pelts needed for identification?

The agreement should include the type of livestock to be fed. Both parties should agree on the grade to which cattle are to be fed and the approximate time of marketing. The feeder or person furnishing the feed must have ample feed or credit to purchase the necessary feed for the completion of the contract.

Death Loss

When feeding livestock under a contract, title to the livestock usually remains with the owner. The death loss is usually borne by the owner, except for such losses as those

caused by negligence of the feeder. The contracting parties should have a complete understanding of the division of death loss.

The normal death loss on feed-lot lambs is about three per cent and on calves about two percent. Death loss when feeding yearlings or older cattle might average about one percent.

When death loss is assumed by the feeder, the feeder may need to charge higher fees to cover feed and other costs. Calves make more efficient gains than do older cattle, which offsets the one percent greater death loss usually assumed for calves, when compared to older cattle. Contracts should make provision for this fact as well as for the fact that much greater losses are possible.

In some lamb feeding contracts, the feeder will accept the risk of any death loss greater than three per cent. In other cases, the feeder accepts the responsibility for death loss that may result from negligence or poor management. Death loss usually is shared in the same proportion as other investments when the death loss is caused from disease, storms, lighting, or causes other than negligence. The feeder will be out the feed that was consumed while the livestock owner will be out his investment in the dead animal.

Consideration of quality should be given to lambs as well as all contracted livestock. Where the quality is poor and there are many culls, the death loss will be higher. The high death loss will increase the cost of producing a pound of gain. A feeder cannot afford to feed unhealthy, or unthrifty animals: neither can the livestock owner afford to put such animals out on contract.

Type of Contract

There are four main types of contracts. Each has numerous variations while some features are common to all. These are the main types of contracts:

- Inventory basis contract.
- 50-50 division of net profit or loss.
- Flat rate per pound of gain.
- Custom feeding.

Inventory Basis Contract (Contributions Approach)

The inventory basis contract calls for the feeder and livestock owner to keep complete records. The records should include an inventory at the beginning and at the end of the contract. Receipts and expenses acquired during the contracting period should be included for all the following costs:

- Livestock.
- Feeds.
- Labor.
- Overhead on buildings.
- Fences.
- Water system.
- Equipment.
- All other cash costs.

Risk of falling prices is shared, as well as windfall profits associated with rising prices. Profits or losses are shared based on the percentage invested by each party.

The disadvantage of the inventory plan is that the feeder may, through negligence or mismanagement, obtain an inefficient gain or suffer extremely heavy death loss. Unless provisions are made against this, the livestock owner can suffer from the feeder's error. *One method used to compensate for this is that the feeder's investment shall be based on the net gain put on the animals at the average cost per pound of gain, with feed prices, death loss and various overhead costs considered. Another plan requires that the livestock owner employ a representative who will look after the livestock owner's interest.*

50-50 Division of Net Profit or Loss

In the 50-50 division of the net profit or loss, the livestock owner furnishes the livestock to be fed while the feeder furnishes the feed, labor, lots, and other equipment needed for the feeding period. When the livestock are sold, the marketing expense is taken from the gross receipts. The livestock owner is then reimbursed for the original value of the livestock and the feeder receives pay for the feed. The remaining sum is then divided equally between the two parties.

When the livestock are sold at a loss, the loss may be made up on a 50-50 basis. The owner will be out part of the money paid for the livestock and the feeder will take less for feed and labor.

Some dislike this approach because they feel it favors the livestock owner. They feel that unless the cost of grain is fixed and he/she has knowledge of livestock performance the feeder could suffer extreme losses.

Even the weather can play a role in pushing costs up for the feeder.

Flat Rate Per Pound of Gain

In this contract feeding agreement, the feeder is reimbursed on a fixed price per pound for gain put on the livestock. The feeder agrees to add an approximate amount of gain for an agreed price per pound.

The price per pound should be based on feed costs, labor costs, cost of equipment and overhead, death loss, and shrink involved. Slaughter grade at marketing and the approximate length of the feeding period also should be stated.

Another method used under the flat rate per pound of gain is the sliding scale method. The payment is based on per hundred pounds of gain for different weights. An example is the first 100 pounds \$16, the second 100 pounds \$17, the third 100 pounds \$20, and the fourth 100 pounds \$24.

Custom Feeding

The custom feeding plan is suitable for livestock owners who desire to have livestock finished for market at their own risk. It also offers possibilities to feeders who have the feed and feeding facilities but lack the ability to take the financial risks associated with finishing livestock.

When fed by the custom feeding plan, the livestock are shipped by the owner to the feeder's lots where they are finished for market. The feeding is done under the livestock owner's direction and the feeder is paid an agreed price for all feeds used as well as for his labor and other overhead expense. When the livestock are marketed, the feeder's compensation comes ahead of all other obligations except freight and marketing expense. The feeder is paid the agreed amount regardless of whether there is a profit or loss.

The feeder may be paid each month for all or a part of the feed and labor used in feeding the livestock during that period. The arrangement may be approached by using the Gain Basis Contract in which the feeder is regularly paid for the gain he adds to the livestock at a specific price.

Principal Provisions of Contract Feeding Agreements

Make sure the contract is complete with respect to the duties and responsibilities of each party, and put it in writing.

Generic contract forms can be dangerous. It is easier to adopt and employ a generic form than to draft an original, but will it meet your specific cases and conditions? Keep the wording simple. Unless the parties to the agreement are accustomed to the making of contracts, obtain legal advice.

Some of the principal provisions of agreements used in contract feeding:

- **Delivery date —**

Clearly state the approximate delivery date and deadline for delivery.

- **Delivery weights—**

Lambs—State that lambs will be weighed at loading point when they are of dry fleece and have been off water and feed for 12 hours. Cattle—Weighed after cattle are off water and feed for 12 hours, or weighed at ranch or location deducting three percent shrink. (Shrink will run from three to five percent, or more, depending upon condition). The cattle will be trailed several miles and weighed with no additional shrink allowance.

- **Grade and weight requirements—**

Lambs— Quality and condition (health) of lambs should be stated along with minimum and maximum allowable weight. Cattle—Desired size and reasonable uniformity with no culls. Grade of cattle should be stated.

- **Receiving livestock —**

Feeder takes possession of the livestock on arrival at premises or at the unloading dock.

- **Feed and feeding requirements—**

Lamb contracts provide that the feeder should feed, water, and care for lambs until they are suitable for market. Some cattle contracts give specific directions for the kind of feed to be fed and the length of the feeding period.

- **Health and livestock—**

An agreement should be made about the health of the livestock on delivery and who stands the veterinarian costs and losses of livestock, if any, during the early feeding period, supervision by agent of livestock owner. If supervision is going to be carried out, details should be in contract.

- **Repossession of stock—**

If livestock are not cared for properly, provision should be made for repossession.

- **Division of death loss —Consider these options:**

Owner stands death loss in transit to the feeder.
Percentages of death Toss borne by owner and feeder.
Death loss responsibility of feeder where death loss is caused by negligence.
Death loss responsibility where death loss is caused by an unforeseen event.
Livestock owner may want pelts or hides of animals to prove death loss.

- Provision of taxes and insurance expense—
Whether insurance is to be carried, kind, and amount, also who is to pay taxes and how they are to be shared.

- Provision for marketing—
Agreement should be made by grower and feeder for time of marketing and where they are to be marketed. The marketing grade of quality should be stated.

- Distribution of marketing expenses—
Statement of how marketing expense is to be paid.

Methods used:

Livestock owner pays all, or divided between the two.

Livestock owner pays on the original weight and feeder pays on the gain.

- Compensation to feeder—
It should be stated how the wool and pelts should be shared. Manure should go to the feeder.
Lambs—The most general provision in lamb contracts is that the feeder would receive, upon the completion of the contract, the market price on the gain in weight while others may include a bonus. Cattle—On a custom basis the contract provides for specified amounts to be paid to the feeder for labor, feed, cost of grinding and hauling of feed, depreciation, and other expenses. The feeder may be paid each month for all or part of the feed and labor or he may be paid the entire amount after the livestock are sold.

- Share of each party—
Contract should state what each party's share will be and when each party will be paid.

- Disposition of sales proceeds—
Whether any money is to be held back until completion of contract.

- Arbitration of disagreement—
Livestock owner and feeder each appoint a party to represent them and the two appointed select a third party. The three people so chosen will consider and decide on solutions to points of disagreement.

- Waiver of liens against livestock and fee—
A release or agreement should be in writing about mortgages on the livestock feed or equipment.

- In the inventory type of contract—
The contract should state how the livestock owner's and feeder's share of profit or loss will be calculated.

- Partnership—
Should state whether or not a partnership is formed.

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ExEx 5032 - PDF by CES. August 1996; updated April 2002.

EXAMPLE

Feeding Contract

This contract is entered into this _____ day of _____, 19__ by and between _____ of _____, _____ hereinafter called the "owner", and _____ of _____, _____ hereinafter called the "feeder."

The owner agrees:

1. To deliver to the feeder f.o.b. at _____ stock yards about _____ head of feeders _____, branded or/and ear marked _____, free of "culls", "bums", "dogs", "locos", or otherwise objectionable feeding animals, between the _____ day of _____, 19__ and the _____ day of _____, 19__, at the feeder's option. All animals are to weigh between _____ pounds and _____ pounds, the average weight being not less than _____ pounds or more than _____ pounds per head.
2. To guarantee the said animals to have been off feed and water for a period of at least twelve hours immediately prior to weighing and that these animals shall be dry when weighed.
3. To bill said animals to the _____ market F.I.T. _____, the bill of lading to be attached to the feeder's copy of the contract and to become a part of it except as hereinafter provided under paragraph two of the joint agreement.
4. To secure the consent of the mortgagee to this contract if the said animals are mortgaged and to attach such consent hereto.
5. To have payment made by joint agreement mentioned below, direct to the feeder by the commission agency handling the sale of these said animals at the market.

The feeder agrees:

1. To take possession of said animals at _____ stock yards and to accept weights of said animals at _____.
2. To feed and/or pasture said animals at feeder's facility located _____ miles from _____, _____.
3. To shelter, care for, and bed said animals and to feed and/or pasture them in the manner designated in paragraph four of the joint agreement.
4. To sort out and deliver said animals to _____ in merchantable lots as they, in the opinion of the commission firm handling the animals, become finished.
5. To secure the consent of the mortgagee to this contract if the feed is mortgaged and attach same hereto.

It is jointly agreed that:

1. Copy of the original weights of said animals at _____ shall be attached to and become a part of this contract.
2. Freight charges shall be advanced by _____ to be later deducted with interest at _____ percent from the gross sale proceeds of said animals at market before either of the contracting parties participates in the returns.
3. Said animals are to be marketed through _____ commission firm at _____ unless otherwise mutually agreed.
4. The said animals shall be fed, pastured and/or wintered for _____ days in a manner appropriate to finish rather than grow them, unless otherwise agreed. If said animals gain on the average more than _____ pounds per head per day, a bonus of _____ cents per hundredweight of gain shall be paid the feeder by the owner.
5. Veterinary charges and death loss shall be borne by/or shared _____ and the feeder shall skin all dead animals upon request and present the hide as evidence. The hide shall then become the property of _____.
6. The feeding in transit tax (if any) shall be borne by _____.
7. The said animals shall not be fed at any public feeding station while in transit to market for more than _____ day(s) unless otherwise agreed.

PAYMENT ON BASIS OF GAINS PLAN

8. After the marketing costs and freight have been deducted from the gross proceeds of the sale of said animals, the contracting parties shall be entitled to payments out of remaining sum as follows:

- A. Mortgages whose consent are attached to this contract shall be paid according to the terms expressed in such consents.
- B. First, the feeder shall receive _____ dollars per hundredweight for the gain he has added to said animals. This sum, except as modified by paragraphs four, five, and eight A under the joint agreement above, shall be paid direct to the feeder by the commission firm selling said animals. The gain shall be based upon the difference in the original weight of said animals at _____ and the finished weight of said animals at _____.

Sliding scale of flat rate per pound of gain

First, the feeder shall receive by a sliding scale payment, first 100 pounds of gain _____, second 100 pounds of gain _____, third 100 pounds of gain _____, and the fourth 100 pounds of gain _____, except as modified by paragraphs four, five, and eight A under the joint agreement.

50-50 division of net profit or loss

First, the marketing expense will be paid, the owner will be reimbursed for the original value of the livestock, the feeder will be reimbursed for the feed, and the remaining sum will then be divided 50-50, except as modified by paragraphs four, five, and eight A above. Losses will be divided as follows: owner _____ percent, feeder _____ percent.

Custom Feeding

The feeder shall receive _____ per head per day for labor, _____ per ton for alfalfa, _____ for protein supplement per ton, _____ per bu. for corn, _____ for equipment and rental charge, _____ interest on feed value, and _____ for other costs. This sum, except as modified by paragraphs four, five, and eight A under the joint agreement, shall be paid direct to the feeder by commission firm selling said animals or by _____.

Note: If other methods of payment are used, the method should be designated as to the manner in which the payment will be made, the amount and time of such payments, and who, if anybody, is to be appointed as the owner's representative. It may be necessary to have something on the weighing of the feed and if the owner furnishes the feed, there will be cost for labor and overhead.

C. After the feeder's deductions have been made, all remaining proceeds from the sale of said animals, except as modified by paragraphs four, five, and eight A above, shall be paid to the owner.

9. In the event that the feeder at any time materially fails to carry out his obligations under this contract, the owner shall be entitled to resume possession of said animals without accountability to the feeder for the feed and labor used or gain produced, except as follows: _____

The owner shall also be entitled to assert all other contract and property rights otherwise available to him by law.

10. Nothing in this contract shall be construed as creating a partnership between the feeder and owner and, likewise, nothing in this contract shall ever be construed as vesting in the feeder the ownership in the above-mentioned animals.

11. For arbitration of disagreement, the owner and feeder will each appoint a party to represent him and the two appointed will select a third party. The three people so chosen will consider and decide on solutions to points of disagreement.

Witness

Owner

Witness

Feeder

Consent of Mortgage of _____

The undersigned mortgagee, under the mortgage(s) by the feeder referred to in the above contract, consents to the foregoing contract conditioned upon the payment of all sums which shall accrue to said owner under the contract to _____ for account of said owner.

Date

Mortgagee

Consent of Mortgage (Grain and Feed of Feeder)

The undersigned mortgagee, under the mortgage(s) by the feeder referred to in the above contract, consents to the foregoing contract conditioned upon the payment of all sums which shall accrue to said Feeder under the contract to _____ for account of said Feeder.

Date

Mortgagee

Gain at Market Price Feeding Contract

It is jointly agreed that:

8. After the marketing costs and freight have been deducted from the gross proceeds of the sale of said animals, the contracting parties shall be entitled to payments out of remaining sum as follows:

- A. Mortgagees whose consents are attached to this contract shall be paid according to the terms expressed in such consents.
- B. First, the feeder shall receive market price of the finished animals for each hundred pounds of gain in weight or fraction thereof that he has, through his feeding, added to the said animals. This gain shall be computed by deducting the original weights of said animals at _____ from the finished weights of said animals at _____. In addition, the feeder shall receive _____ dollars for each hundredweight or fraction thereof of the original weight, or _____ percent. These amounts, except as modified by paragraph four, five, and eight A under the joint agreement above, shall be paid to the feeder direct by the commission firm selling the said animals.
- C. After the above-mentioned deductions have been made, the owner shall receive all remaining proceeds from the sale of said animals except as modified by paragraphs four, five, and eight A under the joint agreement above.

The Straight Inventory Contract

8. After the marketing costs and freight have deducted form the gross proceeds of the sale of said animals, the remaining sum shall be divided between the contracting parties according to the percentage of their respective contributions in the finished animals, to-wit:

A. Mortgagees whose consents are attached to this contract shall be paid according to the terms expressed in such consents.

B. The feeder shall be paid a sum equal to the inventoried value of all feeds, labor, rent on equipment, and overhead, which it is mutually agreed is as follows:

Alfalfa hay _____ tons at \$ _____ per ton or \$ _____;
Shelled corn _____ bushels at \$ _____ per bu. or \$ _____;
Labor _____ days at \$ _____ per day or \$ _____;
Equipment and rental charges of \$ _____;
Interest on all feed value for _____ days at _____ % per annum.

Feeder's Total contribution \$ _____

In the event that all of the above feeds are not used to finish the said animals, the portions not so used shall be deducted from the feeder's contribution at the above-mentioned prices, and if additional feeds are required, the same shall be bought at market price and their cost shall be considered a part of the feeder's contribution.

C. The Owner's contribution shall be a sum equal to the inventoried value of his said animals at the time of delivery to the feeder plus interest on that inventoried value for the duration of the feeding period. This sum is calculated as follows:

Value of _____ cwt. of _____ at \$ _____ per cwt. or \$ _____
Interest on \$ _____ for _____ days at _____ % or \$ _____
Owner's Contribution \$ _____

D. Reimbursements on the basis of the total contributions shown above shall be made, except as modified by paragraphs five and eight A above, direct to the feeder and the grower, respectively by the commission firm selling the livestock.

E. The Owner here by designates _____ as his representative to look after his interests in this operation and it is mutually agreed that the owner and his representative shall have the privilege of inspecting the said animals and consulting with the feeder on methods of feeding to be employed.